Title: Cal-Mortgage Program Continues to Strengthen **PaineWebber October 1999**

Summary: Standard and Poor's upgraded the rating of municipal bonds insured by the Cal-Mortgage Program to AA- from A+ in conjunction with the agency's upgrade of the general obligation rating for the State of California. In addition, the Program's own financial health continues to improve with an uptrending cash balance, reduced insured loan risk and conservative loan requirements for new program guarantees.

Issuer:			
Issue:			
Project:			
Ratings:	**Dated Date:**	**CUSIP:**	**STATE:** CA

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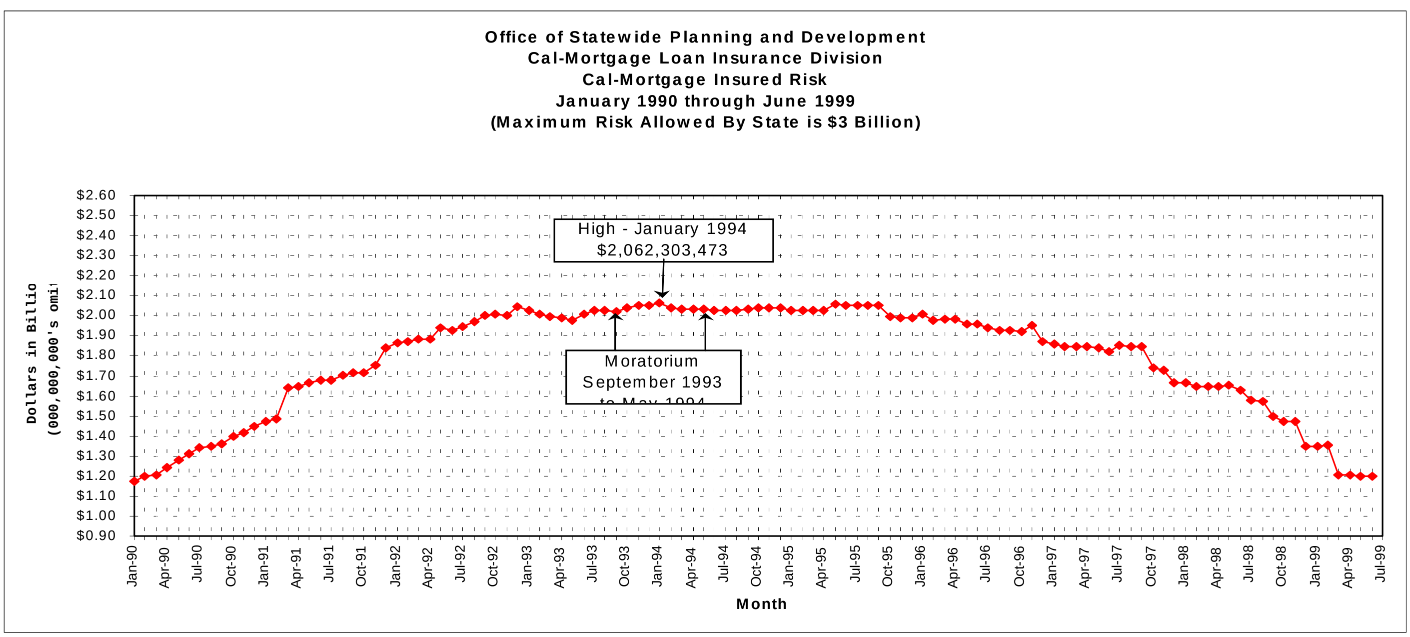
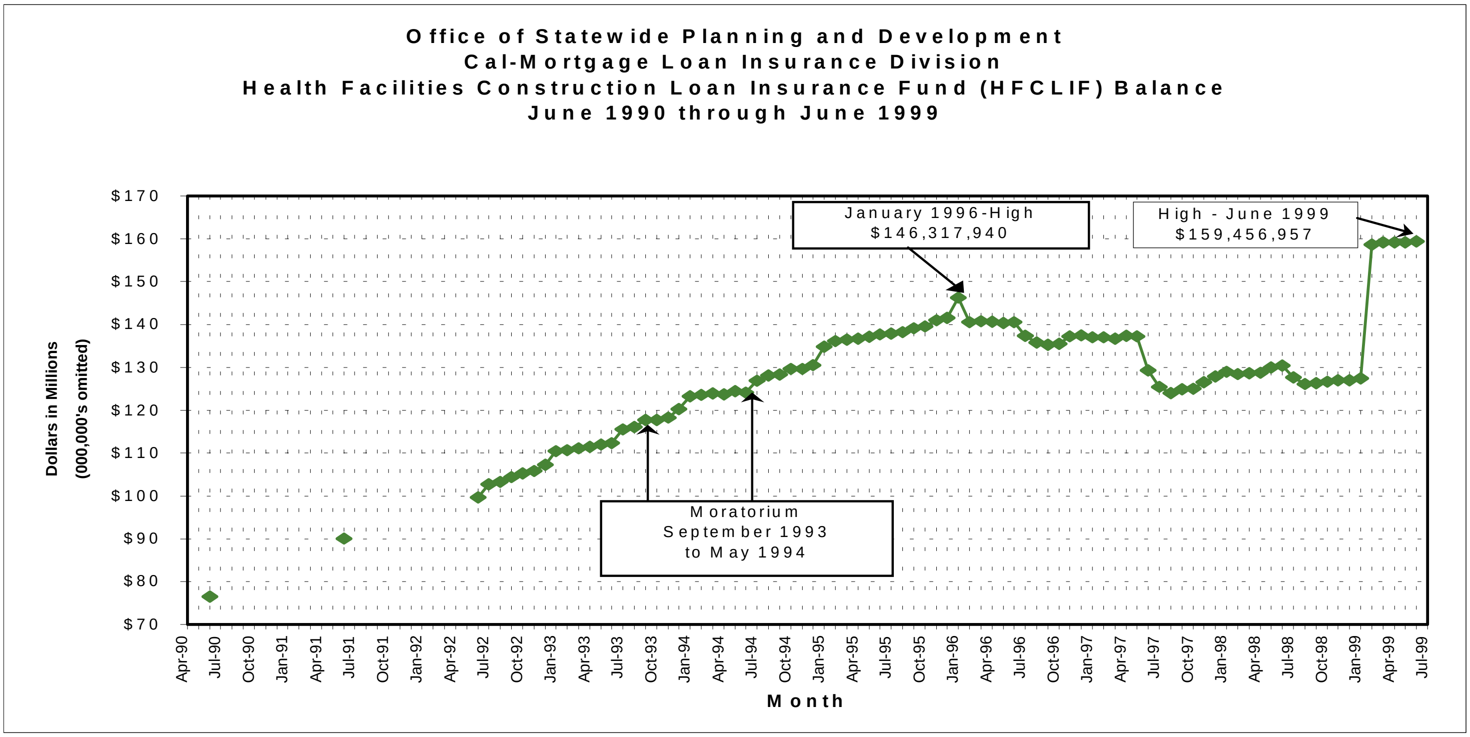
Standard and Poor's upgraded the rating of municipal bonds insured by the Cal-Mortgage Program to AA- from A+ in conjunction with the agency's upgrade of the general obligation rating for the State of California. In addition, the Program's own financial health continues to improve with a significantly improved cash balance, reduced insured loan risk and a more diversified loan portfolio.

Authorized by an amendment to the California Constitution in 1968 and managed by the Office of Statewide Health Planning and Development (the Office"), the Cal-Mortgage Program provides credit enhancement for long-term loans to less established healthcare providers in under-served communities. Modeled after federal home mortgage programs, the Program is designed to provide loan insurance for health facilities in order to stimulate the flow of capital into facility construction, improvement, expansion, acquisition and refinancing. Facilities that participate in the Cal-Mortgage Program are usually of lower credit quality, with many reliant upon Medicaid and Medicare reimbursements for revenue. The Program guarantee provides participants access to the tax-exempt financing market and allows these borrowers to obtain comparable low-interest rates available to the State of California.

The Program guarantees the payment of debt service in the event the insured bond's underlying revenue pledge, the revenues generated by the particular healthcare facility, are insufficient to pay the required principal and/or interest loan repayments. Cal-Mortgage payments are made from its Health Facility Construction Loan Insurance Fund (HFCLIF) which is funded by annual insurance premiums charged to program participants, interest income generated by the investment of the Fund, and new business fees. The Program's guarantee is backed by the promised support of the State. Due to its State backing, the ultimate guarantee of payment for bonds enhanced by the Cal-Mortgage Program is considered to be the full faith and credit of the State of California. From a credit viewpoint therefore, the credit strength of the Cal-Mortgage Program is the creditworthiness of the State. For this reason the rating of Cal-Mortgage insured bonds is directly linked to the general obligation rating of California.



In addition to the improved credit quality of the State, the Office has been successful in its efforts to strengthen the financial position of the Cal-Mortgage Program itself. Since 1992, the insured risks of the Program's loan portfolio have been significantly reduced, the cash balance of the HFCLIF has been measurable increased and the Office has been effective in its management of existing and potential defaults. As of August 31, 1999, the Cal-Mortgage Program insured 172 loans for a total amount insured of $916,100,679. This amount represents a 51% reduction in the Program's loan portfolio since February of 1992. The reduction has occurred due to market forces in general, such as the healthcare



industry's trend of consolidation and the increased ability of Program participants to be refunded and/or rated, as well as to the conservative terms of its lending practices. As of August 31, 1999, the Program's HFCLIF remained underfunded, however, its cash balance stood at $146.93MM or approximately 16% of total debt insured. This balance is in stark contrast to its June 1998 balance when it measured 7.4% of insured debt or its 1992 balance, which represented approximately 5% of the Program's total insured debt. In addition to growth attributable to the collection of annual premiums from Program participants, the primary contributor to the current strength of the HFCLIF is the Program's recovery of approximately $31.2MM from the Triad Healthcare bankruptcy litigation. The Program's insured portfolio is now more diversified in the types of projects insured, both in number and in total amount insured. The amount of hospitals insured has been reduced and borrowing for clinics, group homes, and adult day care projects has increased.